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Research Update:

Danske Bank Affirmed At 'A/A-1' On Improving Economic Trend In Denmark; Outlook Remains Positive

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Overview

- Denmark's high private-sector leverage and households' vulnerability to interest rate hikes continue to reduce, while the share of amortizing retail mortgages is increasing.
- Consequently, we now see a positive economic risk trend for the Danish banking industry.
- We are therefore affirming our 'A/A-1' ratings on Danske Bank and its core subsidiaries and revising our outlook on insurance subsidiary Danica to positive from stable.
- The positive outlook indicates that we could raise the ratings if the bank's financial and business profiles keep strengthening in Denmark's improving economic environment.

Rating Action

On July 13, 2018, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issuer credit ratings on Denmark-based Danske Bank A/S and its core subsidiaries. The outlooks remain positive.

At the same time, we revised our outlook on insurance subsidiary Danica Pension Livsforsikringsaktieselskab to positive from stable and affirmed our 'A' long-term issuer credit and financial strength ratings.

Rationale

The rating reflects our assessment that Danske Bank is a strong performer, with a leading business position in Denmark and robust capital generation via retained earnings. Moreover, Danske Bank's loss-absorbing capacity has been increasing. We also take into account uncertainty regarding ongoing investigations into deficiencies in anti-money-laundering (AML) measures at the bank's Estonian branch between 2007 and 2015.

We now include one notch of uplift in the long-term rating, since we believe Danske Bank will build up a significant amount of additional loss-absorbing capacity (ALAC) in the coming years. To fulfil its new minimum requirement for

own funds and eligible liabilities, Danske Bank is replacing large portions of maturing senior unsecured debt with senior nonpreferred instruments, thereby accumulating a material amount of ALAC. In addition, Danske Bank has a positive track record of placing about Danish krone (DKK) 24 billion (about €3.2 billion) of senior nonpreferred debt, out of an expected DKK37 billion through 2018. Also, we expect that Danske Bank's ALAC buffer will increase to just below 5% of risk-weighted assets in 2018 and eventually exceed 5% in the following two years.

This positive development is, in our view, counterbalanced by uncertainty related to the potential impact of Danske Bank's alleged involvement in money laundering activities in the Baltics during 2007-2015. On May 3, 2018, the Danish Financial Services Authority published a report assessing the role of Danske Bank's management and senior employees in the AML case at the bank's Estonian branch. The publication refers to historical deficiencies in the branch's AML measures and contains a number of reprimands and orders. While in our base case we see no material impact on Danske Bank or its subsidiaries, we note that new developments in the case could affect the bank's reputation, capital, and funding.

At the same time, we see signs that economic risks in Denmark are diminishing, since the country's high private-sector leverage and households' vulnerability to interest rate hikes continue reducing. Moreover, the share of amortizing retail mortgage loans is rising (see "Various Rating Actions Taken On Danish Banks On Signs Of Reducing Economic Risks; Outlooks Positive," published July 13, 2018, on RatingsDirect).

Outlook

The positive outlook on Danske Bank stems from our view of decreasing economic risks in Denmark, associated with receding credit risk in the economy. We expect that Danske Bank will maintain its strong capital and improved profitability, with the risk-adjusted capital ratio staying within the 10%-11% range over the next two years.

We could raise the ratings in the next 24 months if Denmark's improving economy supports further strengthening of Danske Bank's business and financial profiles. However, this would also depend on greater clarity over the likely outcome of the AML case in Estonia and its potential impact on the bank. We could raise the long-term issuer credit rating by up to two notches if economic risk decreases sustainably and risks from the AML investigation do not materialize.

We could revise the outlook to stable if, in our view, the positive economic risk trend was reversing, particularly if private-sector leverage or households' interest-rate sensitivity increased substantially.

Although unlikely, we could revise the outlook to negative or even lower the

issuer credit rating if Danske Bank comes under significant market pressure. This could result from continued charges with regards to the AML investigation, a drop in market confidence, or unexpected events that weaken its credit profile.

The positive outlook on Danica reflects that on the parent.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Positive/A-1	A/Positive/A-1
SACP	a	a
Anchor	bbb+	bbb+
Business Position	Strong (1)	Strong (1)
Capital and Earnings	Strong (1)	Strong (1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and (0)	Average and (0)
Liquidity	Adequate	Adequate
Support	0	0
ALAC Support	+1	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	-1	0

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22,

2014

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Various Rating Actions Taken On Danish Banks On Signs Of Reducing Economic Risks; Outlooks Positive, July 13, 2018
- Danske Bank's Proposed Additional Tier 1 Notes Assigned 'BBB-' Rating, June 21, 2018
- Ratings On Danske Bank Not Immediately Affected By FSA Orders On Anti-Money Laundering Case, May 4, 2018
- Danske Bank And Jyske Bank Outlooks Revised To Positive On Requirements To Issue Bail-In-Able Debt April 5, 2018
- Danske Bank A.S., Nov. 22, 2017
- Danske Bank Ratings Affirmed At 'A'; Outlook Stable, Oct. 24, 2017
- New Issue: Danske Hypotek AB (Mortgage Covered Bond Program), Sept 12, 2017
- The Danish Mortgage Sector Solved The Immediate Problem Of Interest-Only Mortgages, But Remains Vulnerable To Housing Slumps, Sept. 12, 2017

Ratings List

Ratings Affirmed

Danske Bank A/S

Issuer Credit Rating	A/Positive/A-1
Nordic Regional Scale Rating	--/--/K-1
Certificate Of Deposit	A/A-1
Resolution Counterparty Rating	A+/--/A-1
Senior Unsecured	A
Senior Subordinated	A-

Subordinated	BBB+
Junior Subordinated	BBB-
Commercial Paper	A-1
Commercial Paper	K-1

Danske Bank A/S, Swedish Branch
 Issuer Credit Rating A/Positive/A-1

Danske Corp., Delaware
 Commercial Paper* A/A-1

Ratings Affirmed; Outlook Action

	To	From
Danica Pension Livsforsikringsaktieselskab		
Issuer Credit Rating	A/Positive/--	A/Stable/--
Financial Strength Rating	A/Positive/--	A/Stable/--
Subordinated	BBB+	BBB+

*Guarantor: Danske Bank A/S.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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